

S E C R E T

COMMITTEES 17

March 9, 1954

Memorandum for the NSC Planning Board

I. PROBLEM

1. Should the United States seek to exchange Government-owned perishable surplus agricultural products on a barter basis with the U.S.S.R. or its satellites in Europe* in exchange for non-perishable materials needed by the United States on some reasonable basis of price?

II. INTRODUCTORY

2. The U.S. Government, under its price-support programs for agricultural products, has accumulated burdensome surpluses of certain farm products. The present disposal program offers little prospect for reducing substantially the size of these stocks either by disposals in the United States or by exports to free world countries. In view of prospective losses from deterioration, and confronted with recent export license applications to ship some of these Government-owned surplus stocks to the Soviet Bloc, it becomes important to examine whether such exports present problems from the viewpoint of our economic defense policy and other interests.

3. The problem posed by the NSC Planning Board requires consideration of the following major questions: (1) What are the "perishable" Government-owned surplus agricultural products and the problems presented by their disposal to the Soviet Bloc? (2) What are the "non-perishable" materials which are probably obtainable from the Soviet Bloc and are needed by the United States? and (3) What are the advantages and disadvantages of resort to barter as a means of disposal of these surpluses?

*In this paper the words Soviet Bloc or Bloc refer to the USSR or its satellites

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4. In order to place the NSC problem in proper perspective, it is necessary to examine the problems involved in export sales to the Soviet Bloc of such surpluses for dollars or gold.

III. SUMMARY OF PRINCIPAL FINDINGS

5. Dairy products (butter, dried milk and cheese) are the principal "perishables" among the Government-owned surplus stocks of farm products. On February 24 these dairy stocks were valued at \$393 million, with butter representing \$191 million or 284 million pounds. However, not all these stocks require urgent disposal at this time.
6. Exports to the Soviet Bloc may enable the avoidance of some loss which would arise from deterioration of Government-owned perishables which do not appear to be disposable in a better way under the current program.
7. Opportunities for disposal by way of barter in exchange for Bloc non-perishables are quite limited since: (a) the U. S. need for any materials is not great enough to justify special concessions to get them from the Soviet Bloc; (b) the list of durable materials from the Bloc which the U.S. could use advantageously is extremely limited, and of these only platinum is believed to be available for export from the Bloc; (c) the acquisition of materials other than those on this list, such as manganese, is not considered feasible at this time.
8. Barter, especially between Governments, is contrary to U. S. commercial policy interest generally, and should not be encouraged except in unusual circumstances.

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9. Disposals of perishable surpluses to the Soviet Bloc for dollars or gold should be given serious consideration because: (a) More perishables may be disposed of in this manner than where durable goods are required in exchange; and (b) cash transactions through private trade channels are the most effective methods of carrying on international trade and are consistent with U.S. policy and practice.
10. The main difficulties involved in proposed exports of Government-owned perishable surplus stocks of farm products to the Soviet Bloc, whether for dollars, gold, or durable goods, are: (a) Subsidization in terms of the relationship of the export price to Government support level and world price; (b) adverse public reaction; and (c) possible adverse effects on friendly countries which rely on trade in such commodities with the Bloc.
11. The most troublesome of these is adverse public reaction which is related to the subsidization aspect. This problem is particularly difficult in the case of butter because of the public consciousness of the problem. Nevertheless, barter would not avoid the necessity of facing up to these problems, nor would it successfully mask the true prices for the commodities involved.
12. The sale of perishables to the Soviet Bloc would dispose of only a small part of the U.S. Government-owned surplus and a number of difficulties are involved in such transactions. If, in spite of these considerations, disposal of some of the agricultural surplus commodities is deemed of sufficient importance, it is concluded that:

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IV. CONCLUSIONS

13. The Government should be prepared to consider proposals received directly from the Soviets, through private trade channels or through other governments, which would result in the disposal of surplus farm perishables to the Soviet Bloc in return for dollars, gold, or the commodities on the list of acceptable materials.

14. The desirability of any particular transaction can only be determined after a careful study of the pertinent facts.

V. BACKGROUND

15. U.S. trade with the Soviet Bloc in relation to total U.S. trade is illustrated by the following table:

(In millions of dollars)

	<u>U.S. Exports to SovBloc</u>	<u>% of Total U.S. Exports</u>	<u>U.S. Imports from SovBloc</u>	<u>% of Total U.S. Imports</u>
1938	\$147.	4.8	\$ 93.	4.7
1947	\$339.9	2.220	\$108.2	1.880
1952	\$ 1.1	0.007	\$ 39.6	0.370
1953 (11 mos.)	\$ 1.8	0.013	\$ 33.9	0.340

16. Since 1938 U.S. exports to the Soviet Bloc, except under lend-lease during the war and as a result of the current embargo on strategic goods, have consisted predominantly of machinery and vehicles. Perishable commodities have never figured significantly in U.S. commercial exports to the U.S.S.R., but Poland and some of the Eastern European countries have, from time to time, been fairly significant importers from the U.S. of cheaper grades of edible fats, such as lard.

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17. As shown by attached Table III for the years 1938 and 1947, the only non-perishable items generally entering into U.S. imports from the U.S.S.R. are chrome and manganese ore and platinum-type metals. No non-perishable materials of significance have been imported into the U.S. in the past from Soviet Bloc countries other than the U.S.S.R. Furs have generally accounted for about 50% by value of U.S. imports from the U.S.S.R.

18. During 1953 principal U.S. exports to the Bloc comprised tobacco, cigarettes, wool rags, and hops. Principal U.S. imports from the Bloc were hams and bacon, furs, fertilizer, crude feathers, photographic goods, bristles, and palladium.

19. In general, U.S. policy permits the approval of exports to the Soviet Bloc in Europe of commodities which are not strategic and not in domestic short supply. The perishable agricultural products dealt with in this paper fall in this category.

20. In general, U.S. import policy does not impose any special restrictions on imports from the Soviet Bloc other than Communist China, except for certain goods produced by slave labor.

21. Dairy products (butter, dried milk and cheese) are the principal perishable items, i.e., would suffer comparatively rapid deterioration. As of February 24, the total cost to the Government of these dairy products held by CCC was \$393,127,000. Butter represented \$190,589,000 or 283,699,000 pounds. Not all dairy products' stocks represent an urgent disposal problem at this time since only a portion is in danger of early deterioration. There may be, from time to time, marginal quantities of other agricultural products

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held by the Government which are in danger of spoilage and, therefore, should be considered perishable. Practically all the stocks held by CCC, now inventoried at \$2.7 billion, involve a prospect of loss through natural deterioration, rotation, scarcity of adequate storage facilities, cost of upkeep, emergencies, etc. It is not possible at this time to estimate accurately the size of the "disposal" problem arising from prospective economic loss through deterioration, but it involves many millions of dollars.

22. Of the Government-owned farm products, the Bloc countries have shown the greatest interest in butter and cottonseed oil. They also appear interested in linseed oil, tallow, wheat, tobacco, lard, grease and pure cellulose.

23. The extent of the Bloc's real need for or intent to purchase these materials is not known. However, it is generally accepted that per capita consumption of fats and oils in the Soviet Bloc is low and the Bloc could absorb large quantities of these commodities.

24. In 1953, the Soviet Union bought more than its customary quantities of edible fats from other countries. Exports of dairy products by free world countries (Denmark, Netherlands and Sweden) totalled 32.1 million pounds worth \$15 million in 1952, and 13.8 million pounds worth \$7 million in the first half of 1953. Recent Bloc contracts for butter from free world sources involved 91.3 million pounds. (See attached Tables I and II.) It is not known whether the Soviet Union would continue this scale of procurement and buy from the United States in addition thereto or whether the U.S.S.R. would take American perishables in lieu of customary purchases from other sources.

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25. U.S. exports of certain of these farm products might have adverse economic and political impact on those countries which carried on export trade in such commodities. From the viewpoint of impact on friendly countries and consistency with U.S. commercial trade policy, such exports would be desirable if they did not contain elements of subsidy or, if they were subsidized, provided they did not impinge on normal commercial markets. These problems would arise particularly if the export price is less than the support level or the world price. Where such problems exist, prior consultation with the friendly governments concerned would be desirable.

26. From the viewpoint of adverse public reactions, at home and abroad, which might arise from such exports, extremely difficult estimates are required, which, in the ultimate analysis, can properly be made only at the Cabinet level.

27. From the viewpoint of national security, approval of some exports to the Soviet Bloc of Government-owned perishable surplus farm products would not raise any significant security problems. The proposed export of 5000 long tons of tallow worth \$784,000 to Poland, which was approved in September 1953 by the Department of Commerce is illustrative of the general line of approved exports to the Soviet Bloc involving open market items which are not strategic and not in short supply. Other security considerations are:

(a) It is not possible to determine clearly the motivation of the Soviet offers for U.S. perishable surplus farm products, aside from the following facts: (i) There is a shortage of edible fats and oils in the Soviet Bloc generally; and (ii) Soviet purchases of fats and oils in the West have probably drained off most of the available export surpluses.

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(b) A study of the probable psychological and political impact on the Soviet and satellite populations of the proposed barter transactions does not disclose any clear advantage or disadvantage to either the United States or the Soviet Bloc. (See attached Intelligence Estimate.)

(i) On the one hand, approvals of these exports might confront the Kremlin with a serious dilemma, i.e., either to continue to rely on the West for future supplies of farm supplies to satisfy the whetted appetites of their subject peoples, or to divert some of their energies from wartime production activities to peacetime activities to provide needed farm products for their peoples.

(ii) On the other hand, such exports might tend to alleviate current distress and unrest among the peoples behind the Iron Curtain, to lessen their resistance to strict Kremlin rule, and to weaken the Allied strategic trade control system. (However, these arguments were taken into account in classifying these farm products as non-strategic.)

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VII. NON-PERISHABLE MATERIALS AVAILABLE
FROM SOVIET BLOC AND NEEDED BY U.S.

28. The U.S. is not in a position which requires it to rely on procurement from the Soviet Bloc of any materials, non-perishable or perishable.

29. There is, however, a limited list of materials which could be used advantageously in the United States, as follows:

Asbestos (strategic grade)	Nickel
Beryl	Platinum
Columbite	Selenium
Mica (moscovite block and film)	Tantalite

In addition, materials of interest to the AEC and other Government programs (such as titanium) would be acceptable.

30. Of the above materials, only platinum is known to be available from the Bloc. The U.S. stockpile is now 200,000 ounces (valued at about \$18. million) short of its goal for platinum, much of which might be procured from the Bloc without adverse effect on free-world producers. It is not known whether the Bloc would be willing to supply any of the other materials listed above.

31. Manganese and chrome are not on the above list despite the fact that they are known to be available from the Bloc. The U.S. stockpile goals for these materials are now within reach of full achievement through supplies under contract with non-Soviet sources. Some of these sources were developed to replace Soviet Bloc supplies.

32. Other materials, including manganese and chrome ore, are currently being offered by the Bloc in trade agreements with Western countries. However, their acquisition by the U.S. Government at this time is not considered feasible. U.S. and free world markets cannot now absorb these materials without probable serious harm to producers in the U.S. and in friendly countries, and therefore such acquisition should be contemplated

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only if an adequate means for holding such materials off the market under appropriate safeguards is available. The strategic stockpile cannot be considered for this purpose unless the procurement program is expanded, which requires the establishment of new goals and securing additional appropriations for procurement of any magnitude. Insulation of these acquisitions under authority other than the stockpile involves complex problems of policy. Moreover, the potentially depressing effect of such acquisitions on future production in the free world cannot be dismissed, even if such problems are solved.

33. In appraising the capability of the Soviet Bloc to deliver significant quantities of non-perishable materials which might be of interest to the United States, the following were not considered: traditional U.S. imports such as furs, fabricated products, impractical materials like coal, and materials of Communist Chinese origin.

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VIII. EVALUATION OF BARTER DEALS

34. Advantages of barter include:

(a) Receipt of a durable for a perishable commodity may provide some economic benefits (particularly, the avoidance of some loss).

(b) Receipt of a durable material directly in exchange for a perishable material may be used as an explanation to modify adverse public reaction to the export to the Soviet Bloc of a Government-owned perishable surplus farm product at a price below the support level.

35. Disadvantages of barter include:

(a) U.S. international trade is normally and most effectively conducted on a cash basis through private trade channels.

(b) Barter, especially between Governments, is contrary to U.S. commercial policy interests generally, tends to disrupt the normal course of trade, and should not be encouraged except in unusual circumstances.

(c) If encouraged, private American business would probably be able to obtain supplies of strategic and other durable materials from the U.S.S.R. or its satellites through normal trade channels, without involvement of a barter transaction.

(d) The Commission on Foreign Economic Policy (The Randall Commission) opposed state trading. It stated (page 31 of printed report):

"During the transitional period it will be necessary to take every precaution to avoid steps which may lead toward an increase in actual or virtual state trading, lest a pattern of such conduct, seemingly forced by the circumstances of the moment, becomes established as permanent policy. Also, if we are to succeed in moving toward a lessened use of such devices as export subsidies and import quotas, it would be desirable to continue the policy and extend the practice of consulting with interested and affected countries, for the purpose of seeing that such actions of this character as may be required by present law be modified to the extent necessary to ensure that we do not provoke a self-defeating chain of offsetting actions by other countries."

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(e) Barter, even though providing some additional justification, would not eliminate the necessity of public explanations.

(f) Barter would not successfully mask the true prices of the surplus commodities and the durable materials involved. If the transaction in effect involved a subsidized price for the perishables, whether in terms of the quantity of perishables given for the durables received or in the price at which these durables were subsequently disposed, the subsidy would be just as apparent to critics of such a transaction as would a straight sale at reduced prices.

36. From a practical viewpoint, barter would make only a minor contribution to the solution of the problem of disposing of U.S. Government surpluses.

37. The desirability of any particular transaction can only be determined after a careful study of the facts pertinent to each case.

38. Substitution of non-perishable for perishable commodities may, in many instances, merely change the complexion of our problems. Unless the durables are readily consumed in the open market or retained in Government stocks under appropriate safeguards, the adverse economic impact would be transferred from agriculture to another segment of the business community. Examples of possible economic impact are: Competition with production in the U.S. or free world; depressing effect on prices; and interference with private trade.

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IX. EVALUATION OF SALES TO SOVIET BLOC FOR DOLLARS OR GOLD

39. Early in February, the Government announced that "it had been decided as a matter of policy to deny commercial export license applications for the export for cash of United States Government-owned surplus agricultural or vegetable fiber products to Russia or her satellites." It was further stated that "this ban does not preclude study of export license applications for these non-strategic products to the Soviet Bloc if acquired by exporters in the open market and not from the Commodity Credit Corporation surplus stocks."

40. Nevertheless and inasmuch as barter appears to afford only minor benefits within a limited scope of trade opportunities and has other peculiar limitations, it is deemed appropriate to re-examine the problem of such exports for dollars or gold.

41. Cash transactions through private trade channels are traditional, normal and consistent with U. S. international trade policy and practice.

42. Our receipt of some dollars and gold from the Soviets might be considered tantamount to a reduction of a strategic resource to the Soviet Bloc, and would enable us to know the use to which the Soviets have put these dollars and gold.

43. From a practical business viewpoint, exports of such surplus products for cash would enable the Government to get rid of some products which might otherwise deteriorate. Some of the taxpayers' money could be saved. The dollars or gold received in payment might be used, directly or indirectly, to purchase needed materials from friendly countries, or

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to purchase on a selective basis from the Soviet Bloc such nonperishables as we may desire, without the necessity of developing involved barter transactions and in a manner more consistent with U.S. commercial policy and practice.

44. Cash transactions are not limited in scope and flexibility as are barter transactions, and may enable the disposal to the Soviet Bloc of greater quantities of perishable surpluses.

45. The element of subsidization which gives rise to adverse public reaction is more apparent in a cash transaction.

46. There may be other pertinent aspects of receipts of cash or gold of particular concern to the Treasury Department, which are not considered in this paper.

47. On balance, and depending on the circumstances and facts relevant to each particular transaction which must be reviewed on their merits, some exports for dollars or gold of some Government-owned surplus perishable agricultural products to the Soviet Bloc might be defensible.

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TABLE I

FREE WORLD EXPORTS OF DAIRY PRODUCTS
TO THE SOVIET BLOC
DURING YEAR 1952 AND FIRST HALF 1953

	1952		1953 <u>Jan-June</u>	
	<u>Quantity</u> (millions lbs.)	<u>Value</u> (millions \$)	<u>Quantity</u> (million lbs.)	<u>Value</u> (millions \$)
<u>Denmark</u>				
Butter	14.6	7.3	3.5	2.0
Cheese	3.3	1.0	2.4	.8
Milk & Cream (fresh, dried & condensed)	0.2	.03	0.2	.01
	<hr/>	<hr/>	<hr/>	<hr/>
Total	18.1	8.3	6.1	2.8
<u>Netherlands</u>				
Butter	5.1	2.4	0.7	.3
Cheese	0.1	.03	0.2	.1
Milk (dried and con- densed)	0.02	.1	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	5.2	2.5	0.9	.4
<u>Sweden</u>				
Butter	8.8	4.2	6.8	3.7
Cheese & Curd	-	-	-	.1
Milk & Cream (dried, evap., condensed)	-	-	-	.02
	<hr/>	<hr/>	<hr/>	<hr/>
Total	8.8	4.2	6.8	3.8

NOTE: Export data for 1952 and for the first half of 1953 do not list butter as an export item to the Bloc from New Zealand and Argentina. Australia data shows none in 1952, but for January-June 1953 5,000 lbs. of butter valued at \$3,000 is reported as exported to China. Data for Uruguay is not available.

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TABLE IIRECENT SOVIET BLOC PURCHASE CONTRACTS
FOR BUTTER FROM FREE WORLD

<u>Contract Country</u>	<u>Delivery Period Covered</u>	<u>Quantity involved (Millions of lbs.)</u>
Argentina	9/53 - 12/53	11.0
Netherlands	n.r.	29.8
Denmark	7/53 - 7/54	24.3
Australia	Delivery by end of Nov. 1953	4.4
New Zealand	n.r.	15.7
Uruguay	Cal. Yr. 1953	<u>6.1</u>
	Total	91.3

n.r. - not reported

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TABLE III

PRINCIPAL COMMODITIES ENTERING INTO
U.S.-SOVIET BLOC TRADE IN 1938 AND 1947
(\$1,000)

	<u>1938</u>	<u>1947</u>
<u>U.S. Exports to Bloc</u>		
Machinery and vehicles	66,340	196,105
Raw cotton	13,083	6,264
Copper and products	8,973	2,409
Iron and steel products	6,725	15,922
Chemicals	1,869	10,285
Scientific instruments and supplies	1,150	8,866
Fats and oils	525	10,030
Grains	129	36,029
Wool Rags	8	775
Dairy Products	-	5,015
All Other	47,796	48,200
TOTAL	146,598	339,900
<u>U.S. Imports from Bloc</u>		
Furs	16,932	44,047
Chrome Ore	-	8,956
Manganese Ore	2,662	7,723
Textiles	9,445	4,344
Hams	8,957	-
Glass ceramics and beads	4,524	5,089
Band instruments	3,081	3,711
Tobacco	2,370	8,036
Cotton linters and waste	2,043	2,826
Hops	1,781	4,374
Jewelry and precious stones	1,215	5,399
Caviar, crabmeat, etc.	913	755
Sausage casings	397	853
All Other	38,608	12,087
TOTAL	92,928	108,200

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PSYCHOLOGICAL IMPLICATIONS OF PROPOSAL TO EXCHANGE CERTAIN
SURPLUS COMMODITIES WITH BLOC GOVERNEMENTS

PROBLEM

What would be the probable psychological and political impact on the Soviet and Satellite populations of barter transactions between the US and various Soviet Bloc governments (not including Communist China) involving the exchange of US surplus perishable commodities for raw materials desired by the US?

ESTIMATE*

I. Direct and Immediate Propaganda Effects

1. Communist propaganda would probably develop the following themes in explaining barter transactions for US perishable food surpluses to the Satellite and Soviet peoples:

- a. The Communist leaders had demonstrated again their willingness to develop mutually profitable "business relations" with all countries and thereby to contribute to the relaxation of tensions and to peace.

* This estimate has been prepared by the Board of National Estimates of the Central Intelligence Agency. It has not been coordinated with any member agency of the IAC.

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- b. US capitalism was entering a stage of crisis in which the monopolists, having been unwilling to sell their goods to the working masses at reasonable prices, were forced in their desperate search for foreign markets to sell to Communist countries, although they were most reluctant to do this.
 - c. The purchase of food supplies demonstrated the sincerity of the Communist regimes in their current programs to raise standards of living, as well as their economic capacity to fulfill the promises they have made.
2. US propaganda to Satellite peoples could employ the following themes:
- a. The system of free agriculture in the US is so productive that the US is able, despite the high living standard of the American peoples, to export large quantities of agricultural commodities.
 - b. The US is willing to engage in trade with Communist countries where it is clear, as in the case of perishable commodities, that this trade will help in some degree to alleviate the hard lot of the masses of the people under the Soviet yoke. This is the first occasion on which the Communist rulers

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have shown any willingness to engage in such trade, and they are evidently forced to do so now because of the increasing restiveness of the peoples under Communist oppression and the obvious failure of their own collectivized agriculture. The willingness of the US to engage in this trade does not affect the US determination not to engage in trade in such materials as would add to the military power of the Communist regime and thus further their aggressive aims.

3. US propaganda would be under some handicaps in asserting that the US action had been mainly inspired by humanitarian concern for the welfare of the people in Communist countries. That fact that the US is plagued by a problem of chronic agricultural surplus must be assumed to be fairly widely known. Moreover, the humanitarian motive would be discredited by statements made in this country that the transactions had been undertaken because they were considered to be more advantageous to the US than to the Communists.

4. We conclude, therefore, that in the propaganda exchanges which would immediately follow the announcement of such transactions the US would have, insofar as the Soviet and Satellite

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peoples were concerned, no clear and decisive advantage. We believe that the propaganda battle would produce mixed reactions among the satellite and Soviet peoples and would be at best a stand-off.

II. Indirect and Longer-Range Consequences

5. We do not believe that the improvement in standards of living which might result in the USSR or any Satellite country from such transactions would be so substantial as to encourage wider acceptance of the Communist regimes. Nor do we believe it would be so substantial as to sharpen discontent, on the theory that improvements in desperate material conditions would lead to aggressive demands for additional gains.

6. It is possible that such a departure in US trade policy might be regarded by some among the Satellite peoples as a step toward normalizing relations between the US and the USSR. A normalization of relations might carry the implication that there had been an acceptance by the US of the status quo in Eastern Europe. The result might therefore be to discourage hopes for early liberation from Communist control and consequently to weaken the will to resistance.

7. The manner of Negotiation. The foregoing discussion of the consequences of the proposed barter transactions has assumed

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that these would be negotiated secretly and announced publicly only when agreement had been reached. In a public negotiation, the US could probably gain some net propaganda advantage by initiating proposals for such transactions. On the other hand, if the USSR initiated the proposals, we believe that the US would not derive much advantage from accepting them, and would probably suffer some disadvantage from refusing them.

Attachment to AD/NE Memo
to Intelligence Advisor,
NSC Planning Board, dated
1 March 1953